



# hospTRENDS

Volume 2003-3 July 2003

## ANNOUNCEMENTS

If you are currently receiving this report on paper via postal mail, you could be receiving it up to a week earlier by electronic mail attachment. However, if you want electronic mail delivery, you must ask for it. Please call (360) 236-4215 or send an electronic message to [tom.muller@doh.wa.gov](mailto:tom.muller@doh.wa.gov) to change the form of delivery of your hospTRENDS report.

Visit the Department of Health web site at <http://www.doh.wa.gov/EHSPHL/hospdata> for a large variety of hospital data and reports. Included are patient guides, hospital discharge data and reports, and hospital financial data and reports. Also included are Directory of Hospitals, CHARS Procedure Manual, *Accounting and Reporting Manual for Hospitals*, Charity Care reports and hospTRENDS.

Your opinions are important to us. Please let us know what you like or don't like about the content and presentation of the hospTRENDS report. Postal and Internet addresses as well as telephone and FAX numbers are listed on page 5 of this issue.

## PREFACE

Summary financial and utilization data are submitted to the Department of Health on a quarterly basis by hospitals in the state of Washington. Reported data are edited, summarized, and analyzed by Hospital and Patient Data Systems staff. Specific data elements are defined in the Department's *Accounting and Reporting Manual for Hospitals*. Utilizing these data, various financial and utilization rates and ratios are calculated to enhance the description of the financial condition of hospitals in the state. The purpose of this series of reports is to provide all concerned parties with information describing emerging hospital utilization and financial trends.

Instead of focusing on individual quarters, the data in this report are aggregated into twelve month periods consisting of four calendar quarters each.

This aggregation reduces the impact of seasonal fluctuations, which could distort actual trends occurring within the hospital industry.

This report includes the first calendar quarter of 2003. The report provides the first preview of the direction that hospital financial and utilization trends are headed in 2003. However, this preview is subject to change. The quarterly reports submitted by hospitals contain interim data which have not yet been subjected to audit review. Future adjustments and/or revisions as a result of both the hospital's internal accounting system review and the formal procedures of outside auditors may result in changes to previously submitted data. These future revisions will be reflected in the hospital's year-end reports. The year-end reports not only reflect audit adjustments but also provide substantially greater detail, which allows analysis of the information provided in greater depth.

## SUMMARY

Annual growth rates for the four quarter period ended March 31, 2003 were 16.2% for total patient service revenue and 22.1% for deductions from revenue. This resulted in an increase of 11.5% in net patient services revenue.

The increase of 10.7% in total operating expenses combined with a growth of 1.9% in adjusted discharges resulted in operating expenses per adjusted discharge that were 8.6% over the year earlier level. This is considerably higher than the 3.0% advance in the overall consumer price index and slightly above the 8.2% jump in the hospital services component of the index.

Contractual adjustments grew by 22.6% to a new high of \$7.0 billion. Each category of contractual adjustments has grown more rapidly than the corresponding patient service revenue every reporting period since calendar year 1997. With the deductible proportion increasing to 47.11% a hospital must bill \$1.89 to realize \$1.00 in net revenue.

Net operating income rose by 45.6% to a new high of \$248 million. The increase was sufficient to

pull net income per adjusted discharge up to \$267.12 and operating margin up to 2.91%.

Accounts receivable averaged 63.3 days of revenue for the four quarter period ended March 31, 2003. This was 8.5 days less than the year earlier period. Over the past year Medicare accounts receivable declined by 9.1 days, Medicaid accounts receivable dipped by 8.4 days, and accounts receivable for other payers dropped by 8.0 days.

## **FINANCIAL INDICATORS**

### **Total Patient Service Revenue**

Total patient service revenue, which is the sum of billed charges for all hospital services, advanced by \$2.1 billion to \$15.3 billion, which was an increase of 16.2%. For the fourth consecutive time outpatient revenue grew more rapidly (18.9%) than inpatient revenue (14.2%). Total patient service revenue grew by 17.0% for Medicare, 20.3% for Medicaid, and 14.6% for other payers. This is the ninth consecutive quarter in which Medicare and Medicaid revenue have grown more rapidly than total patient service revenue.

### **Deductions from Revenue**

For the twelve months ended March 31, 2003 total deductions from revenue reached \$7.2 billion. Growing by 22.6%, contractual adjustments reached \$7.0 billion. By payer group contractual adjustments were up by 27.8% for Medicare, 25.8% for Medicaid, and 17.5% for other payers. Each category of contractual adjustments has grown more rapidly than the corresponding patient service revenue every reporting period since calendar year 1997. Contractual adjustments for Medicare and Medicaid reflect the difference between billed charges and the amounts that are actually paid. The difference between billed charges and the payment rates negotiated with major health insurers, managed care plans, HMO's, and other contractual payers is included in contractual adjustments for other payers. Charity care advanced by 3.9% from the year ago total to \$180 million in the twelve month period ended March 31, 2003. This was 1.18% of total patient service revenue.

### **Net Patient Service Revenue**

Net patient service revenue is defined as the amount of revenue actually realized by hospitals. In the four quarter period ended March 31, 2003 net patient service revenue reached \$8.1 billion, which was an increase of \$834 million, or 11.5%, over the corresponding period a year ago. When deductions from revenue grow more rapidly than total patient service revenue, the rate of increase for net patient service revenue is less than the rate of increase for total patient service revenue. This has been the case in each four quarter period since the period ended March 31, 1996.

### **Operating Expenses**

Growing by 10.7%, or \$756 million, operating expenses reached \$7.8 billion in the twelve month period ended March 31, 2003. Operating expenses are the costs of providing health care services to hospital patients. Increases in the volume of patient service utilization only accounted for an increase of 1.9% in operating expenses. The increase in operating expenses not related to patient volume was 8.6%. The volume adjusted increase substantially exceeded the 3.0% annual increase in the consumer price index for the same period, and was slightly above the 8.2% annual increase in the hospital services component of the index.

### **Net Operating Income**

Net operating income jumped by 45.6% to a new record high of \$248 million in the twelve month period ended March 31, 2003. This resulted in net income per adjusted discharge of \$267.12 and an operating margin of 2.91%. While net operating income is an important source of funding for replacement of buildings and equipment as well as the acquisition of modern medical technology, it is not the only source. Many hospitals also have income from activities other than the provision of patient care services. This other income is not included in quarterly reports to the Department of Health.

## **UTILIZATION INDICATORS**

### **Discharges, Patient Days, and Length of Stay**

Inpatient activity is primarily measured by discharges and patient days. Discharges from Washington hospitals continued to grow; reaching a total of 516,181 discharges during the four quarter period ended March 31, 2003. This was a gain of 2,255 discharges, or 0.4%, over the corresponding year ago period. During the same interval patient days expanded by 15,929 days, or

0.7%, to 2,248,115 days. Since patient days grew faster than discharges, average length of stay crept upward to 4.36 days.

### Adjusted Discharges

Adjusted discharges continued to climb; reaching a total of 928,536 adjusted discharges in the four quarter period ended March 31, 2003. This was an increase of 17,743 adjusted discharges, or 1.9%, over the four quarter period ended March 31, 2002. Adjusted discharges are utilized as an aggregate indicator of hospital activity. To calculate

adjusted discharges, inpatient discharges are multiplied by the ratio of total patient service revenue to inpatient revenue (excluding skilled nursing facility revenue). With this adjustment, total patient service revenue per adjusted discharge is equal to inpatient revenue (excluding skilled nursing facility revenue) per inpatient discharge. Adjusted discharges are necessary for computing average rates, since total patient service revenue is the only financial indicator that can be split into inpatient and outpatient components.

## OPERATING INDICATORS

### Rates per Adjusted Discharge

Rates per adjusted discharge relate hospital financial indicators to the “average” patient. Total patient service revenue per adjusted discharge is the total bill for the average patient stay. Deductions from revenue per adjusted discharge is the portion of this average bill that is not paid by Medicare, Medicaid, or health insurers, or is written off as charity care. Net patient service revenue per adjusted discharge is the amount of revenue the hospital actually receives from the average patient visit. Operating expense per adjusted discharge is the cost of providing services to the average patient. Net operating income per adjusted discharge is the amount of money the hospital is able to earn from the average patient visit. Rates per adjusted discharge for the twelve month periods ended March 31, 2002 and March 31, 2003, and the percentage changes were:

<u>Rate per Adjusted Discharge</u>	<u>FYE 3/31/02</u>	<u>FYE 3/31/03</u>	<u>Percent Change</u>
Total Patient Service Revenue per Adjusted Discharge	\$14,446.74	\$16,470.92	+14.0%
Deductions from Revenue per Adjusted Discharge	\$6,481.35	\$7,759.40	+19.7%
Net Patient Service Revenue per Adjusted Discharge	\$7,965.39	\$8,711.52	+9.4%
Operating Expenses per Adjusted Discharge	\$7,778.40	\$8,444.41	+8.6%
Net Operating Income per Adjusted Discharge	\$186.99	\$267.12	+42.9%

## FINANCIAL RATIOS

Financial ratios are utilized to reflect the relationship between selected financial indicators. The financial ratios selected for this report are not all encompassing, but represent financial indicators that can be readily calculated from the data available through the quarterly reporting process as currently designed without requesting supplemental data from the reporting hospitals.

### Days in Accounts Receivable

During the twelve month period ended March 31, 2002 accounts receivable averaged 63.3 days, which was 8.5 days less than the year earlier period and 16.3 days less than the two year earlier period. Accounts receivable averaged 49.1 days for Medicare, 70.7 days for Medicaid, and 70.5 days for other payers, which were decreases of 9.1 days, 8.4 days, and 8.0 days, respectively from the previous year. Since the twelve month period ended March 31, 2001 average days in accounts receivable have dropped by 13.7 days for Medicare, 11.3 days for Medicaid, and 19.0 days for other payers.

Over a two year period accounts receivable days decreased in all geographic areas. At 55.3 days the Southwest region is significantly lower than the other geographic regions. The Central Washington area with 66.2 days and the King County region with 65.4 days are currently the highest.

Average days in accounts receivable has improved significantly for each payer group. In the four quarter period ended March 31, 2003 proprietary hospitals were substantially lower with 43.9 days. District hospitals averaged 62.4 days and not-for-profit hospitals were at 66.2 days.

Frontier hospitals experienced the highest average days in accounts receivable of 71.1 days, after declining only 10.7% in two years. Less remote hospitals experienced the lowest average days in accounts receivable of 53.3 days, which represented a reduction of 15.5% over two years.

In the four quarter period ended March 31, 2003 average days in accounts receivable for individual hospitals ranged from 27 days to 141 days.

<b><u>Days in Accounts Receivable</u></b>	<b><u>Twelve Months Ended</u></b>			<b><u>Change from</u></b>		<b><u>Change from</u></b>	
	<b><u>March 31,</u></b> <b><u>2001</u></b>	<b><u>March 31,</u></b> <b><u>2002</u></b>	<b><u>March 31,</u></b> <b><u>2003</u></b>	<b><u>March 31, 2001</u></b> <b><u>Total</u></b>	<b><u>Percent</u></b>	<b><u>March 31, 2002</u></b> <b><u>Total</u></b>	<b><u>Percent</u></b>
Statewide Total	79.5	71.8	63.3	-16.3	-20.5%	-8.5	-11.8%
By Payer:							
Medicare	62.8	58.2	49.1	-13.7	-21.8%	-9.1	-15.7%
Medicaid	82.0	79.1	70.7	-11.3	-13.8%	-8.4	-10.6%
Other	89.6	78.5	70.5	-19.0	-21.3%	-8.0	-10.2%
By Region:							
King County	86.6	74.9	65.4	-21.2	-24.4%	-9.5	-12.7%
Puget Sound	75.6	75.9	62.8	-12.7	-16.8%	-13.0	-17.2%
Southwest Washington	76.6	59.8	55.3	-21.3	-27.8%	-4.5	-7.5%
Central Washington	69.9	64.2	66.2	-3.7	-5.3%	+2.0	+3.1%
Eastern Washington	71.7	68.1	61.4	-10.2	-14.3%	-6.7	-9.8%
By Type of Ownership:							
District	73.5	66.5	62.4	-11.1	-15.1%	-4.1	-6.2%
Not-for-Profit	84.5	76.0	66.2	-18.3	-21.7%	-9.9	-13.0%
Proprietary	62.0	55.8	43.9	-18.1	-29.2%	-11.9	-21.4%
By Population Density							
Frontier Rural	79.6	77.8	71.1	-8.5	-10.7%	-6.8	-8.7%
Remote Rural	74.9	75.3	67.7	-7.2	-9.7%	-7.6	-10.1%
Less Remote Rural	68.9	58.6	53.3	-15.5	-22.5%	-5.3	-9.0%
Urban	80.9	73.1	64.1	-16.7	-20.7%	-8.9	-12.2%

### **Operating Margin**

Operating margin compares net operating income to total operating revenue. In the twelve month period ended March 31, 2003 operating margin was 2.91%, which was 30.7% greater than the year earlier period. Operating margin is a major source of funding for expansion and replacement as well as the acquisition of new medical technology.

### **Deductible Proportion**

The deductible proportion compares total deductions from revenue to total patient service revenue. For the four quarter period ended March 31, 2003 the deductible proportion reached 47.11%, which was an increase of 5.0% over the year earlier level. The deductible proportion has grown every quarter since the four quarter period ended March 31, 1996 and has reached a new high. At the current level, a hospital must bill \$1.89 to realize \$1.00 in net revenue.

### **Contractual Proportion**

The contractual proportion compares total contractual adjustments with total patient service revenue. Likewise, the Medicare contractual, Medicaid contractual, and other contractual proportions are computed by comparing each payer group's contractual adjustments to the corresponding total patient service revenue for the same payer group. The total contractual proportion reached 45.9%, which was an increase of 5.0% and was another new high, during the four quarter period ended March 31, 2003. The contractual proportion has grown every quarter since calendar year 1995. The Medicare contractual proportion of 51.5% and the Medicaid contractual proportion of 49.2% are well above the contractual proportion for other payers of 41.2%. This is a direct result of the rapid increase in Medicare and Medicaid contractual adjustments over the past year.

### **Charity Care Proportion**

The charity proportion declined by 10.6% to 1.18% in the four quarter period ended March 31, 2003. It is expected that that charity care will increase significantly starting with the third quarter

of 2003 as changes passed during the 2003 legislative session are implemented

### **Inpatient and Outpatient Revenue**

The proportion of total revenue to inpatient revenue and the outpatient revenue percentage are alternate ways of looking at the relationship between inpatient and outpatient revenue. Between the annual period ended March 31, 2002 and March 31, 2003, the outpatient revenue percentage increased from 42.9% to 43.9%, while the ratio of total revenue to inpatient revenue grew from 1.75 to 1.78. These ratios are now at the highest levels

ever recorded by the Department of Health or by the Washington State Hospital Commission.

### **Medicare and Medicaid Revenue**

The primary payers of hospital bills are the Medicare and Medicaid programs. The Medicare and Medicaid revenue percentages indicate the proportion of total hospital business that these programs represent. In the twelve month period ended March 31, 2003 the Medicare percentage was 34.0% and the Medicaid percentage was 15.2%. With 49.3% of total patient service revenue, the Medicare and Medicaid programs have a major influence on the financial health of hospitals.

## **hospTRENDS**

*Washington State*

Hospital Financial and Utilization Trend Update  
Quarter Ended March 31, 2003

For additional information, comments, and suggestions, or to request extra copies of this report, please contact:

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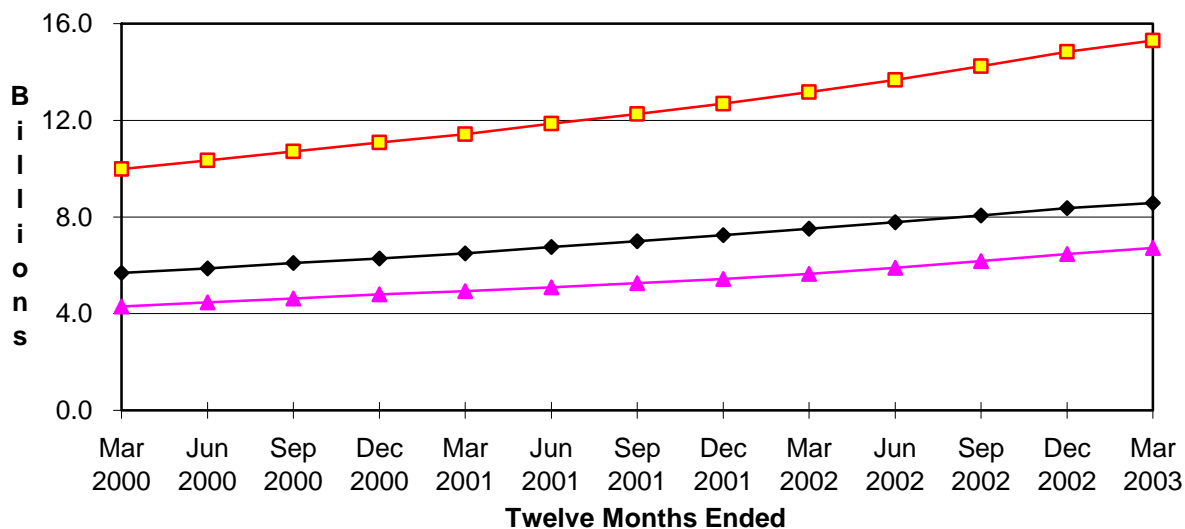
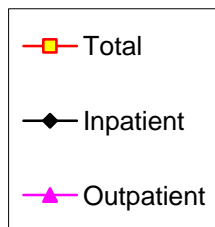
Mary Selecky, Secretary  
Department of Health

Joangeles (Jac) Davies, Assistant Secretary  
Epidemiology, Health Statistics, and Public Health Laboratories

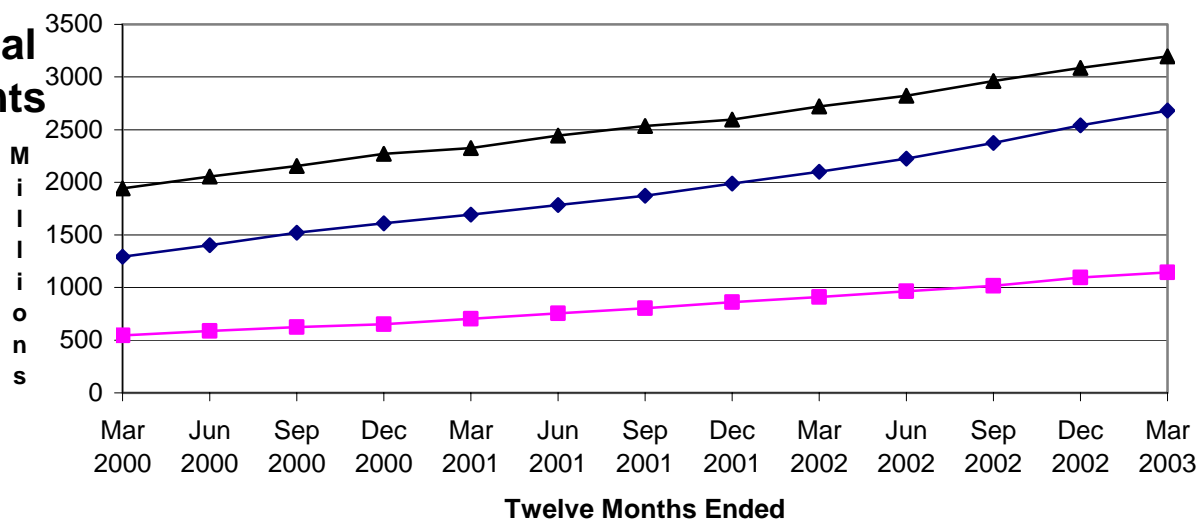
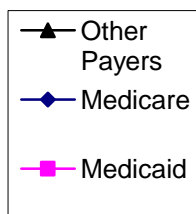
Teresa Jennings, State Registrar and Director  
Center for Health Statistics

Authors: Thomas Muller and Richard Ordos

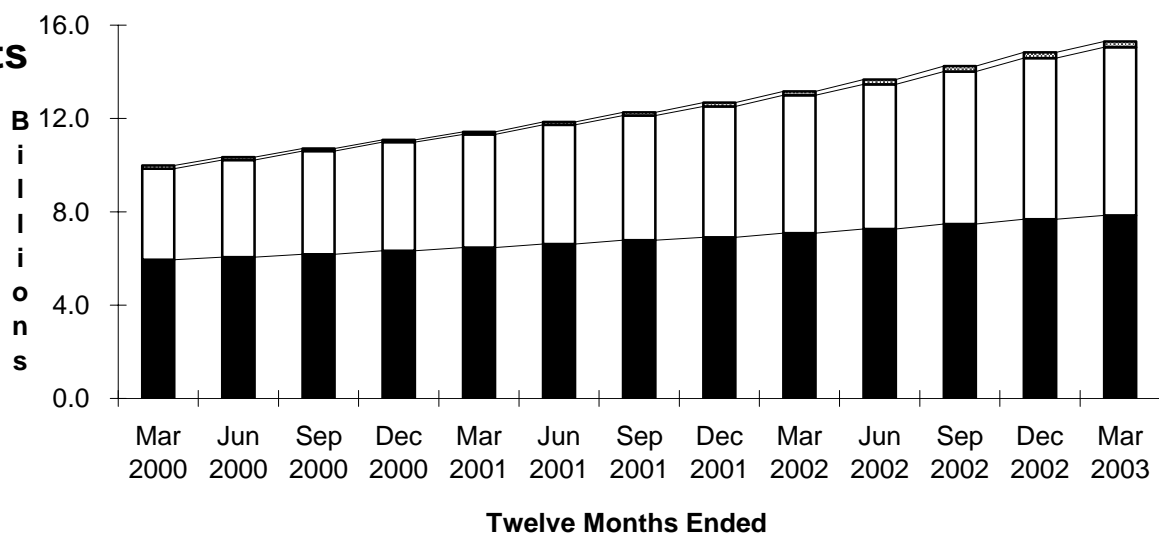
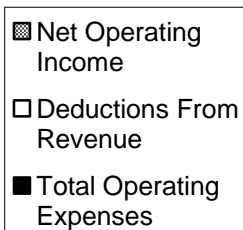
## Total Patient Service Revenue



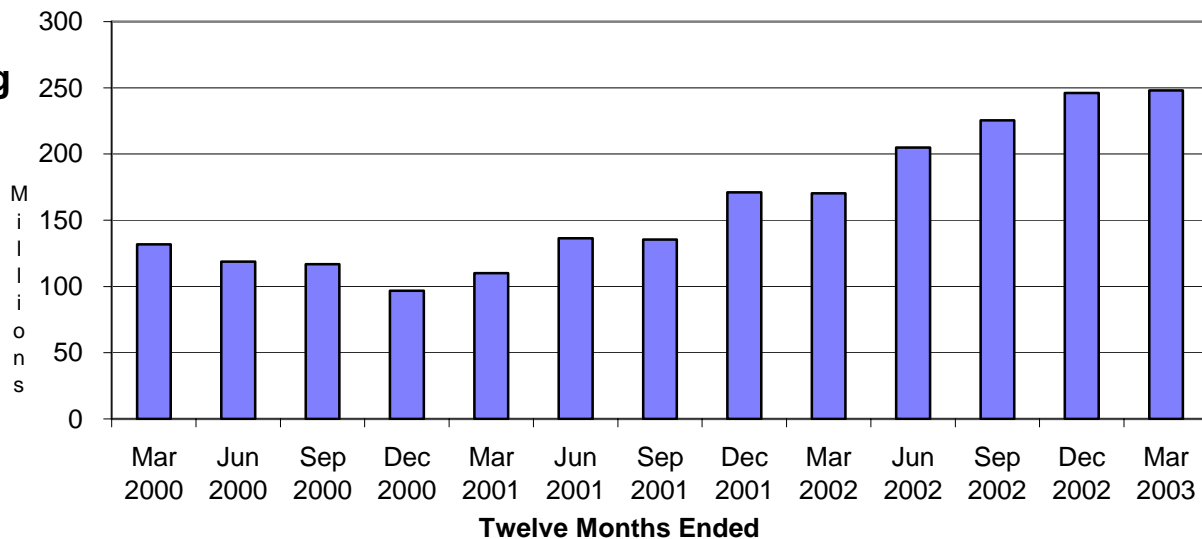
## Contractual Adjustments



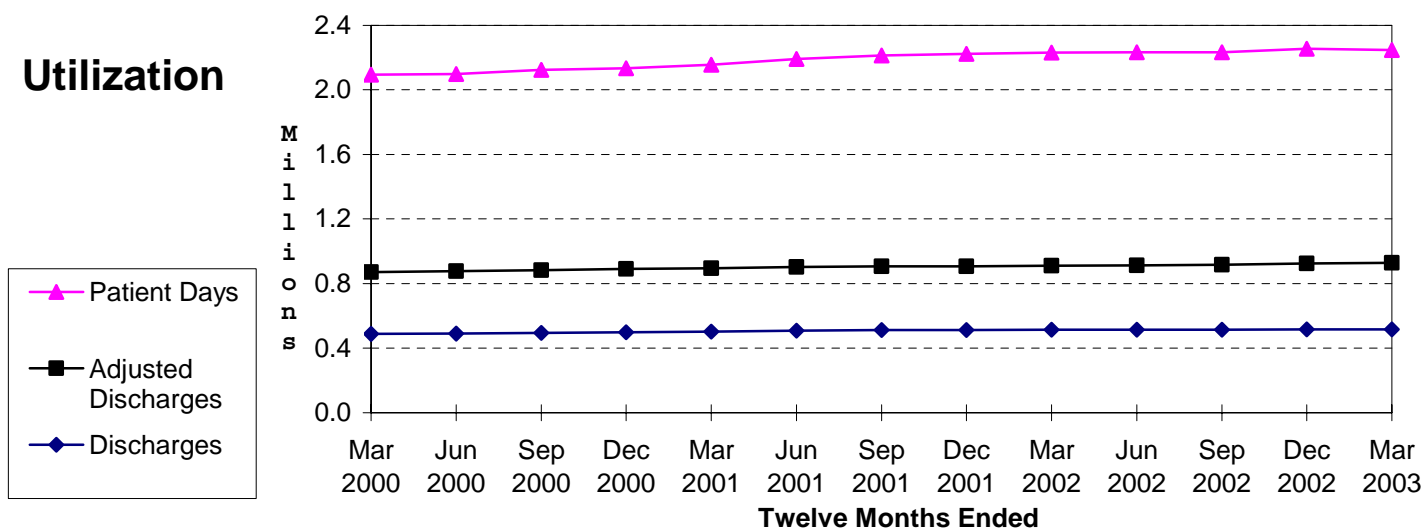
## Components of Total Patient Service Revenue



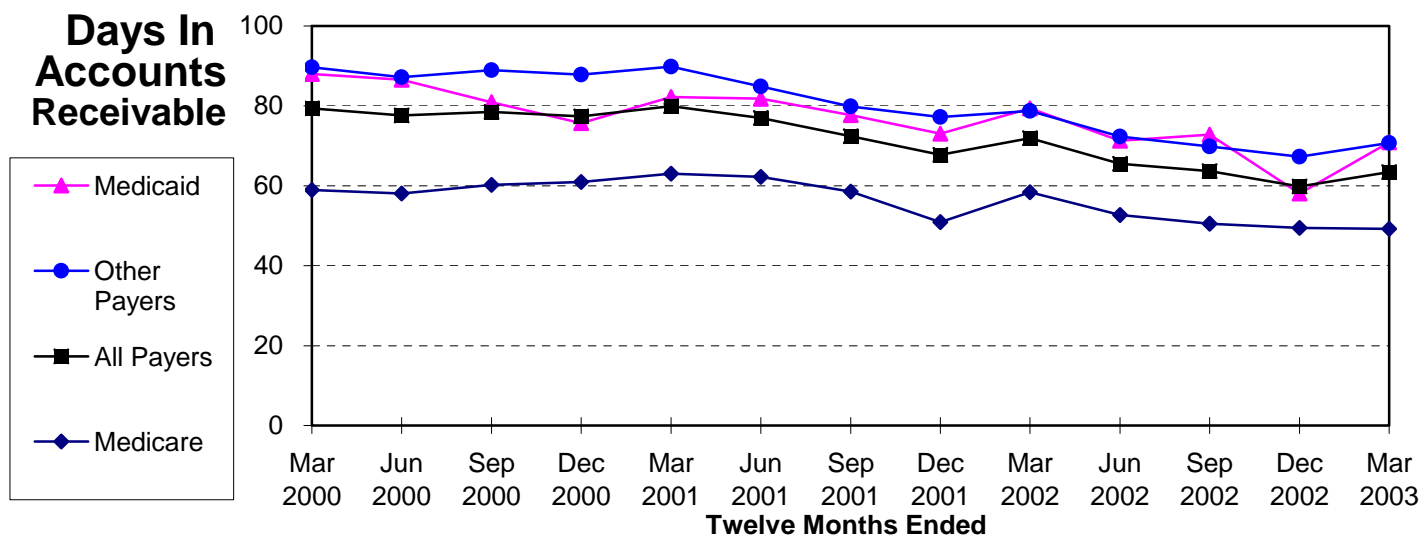
## Net Operating Income



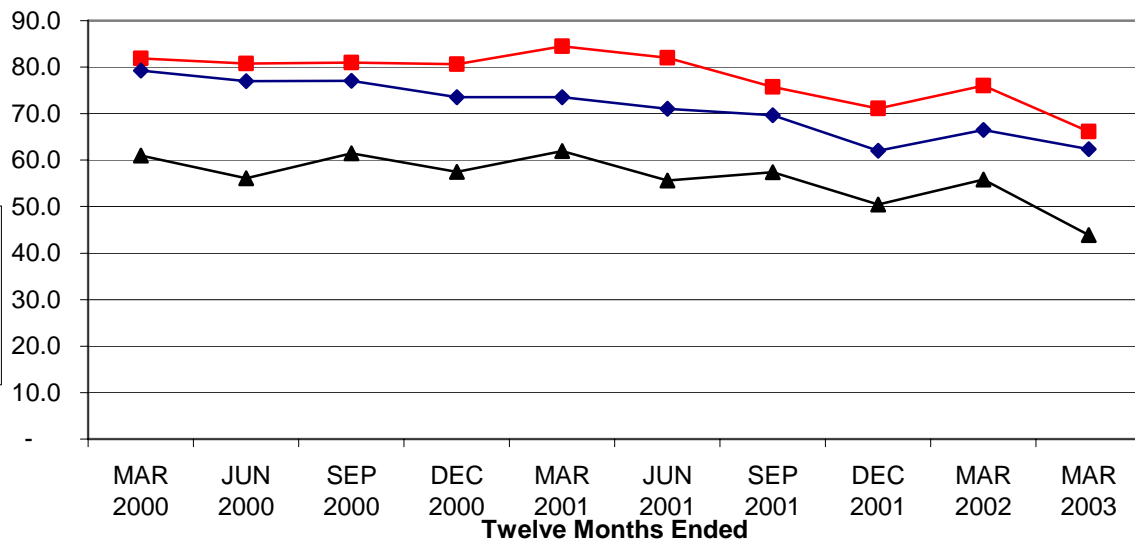
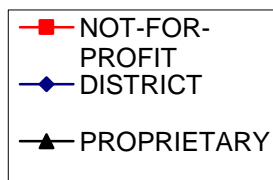
## Utilization



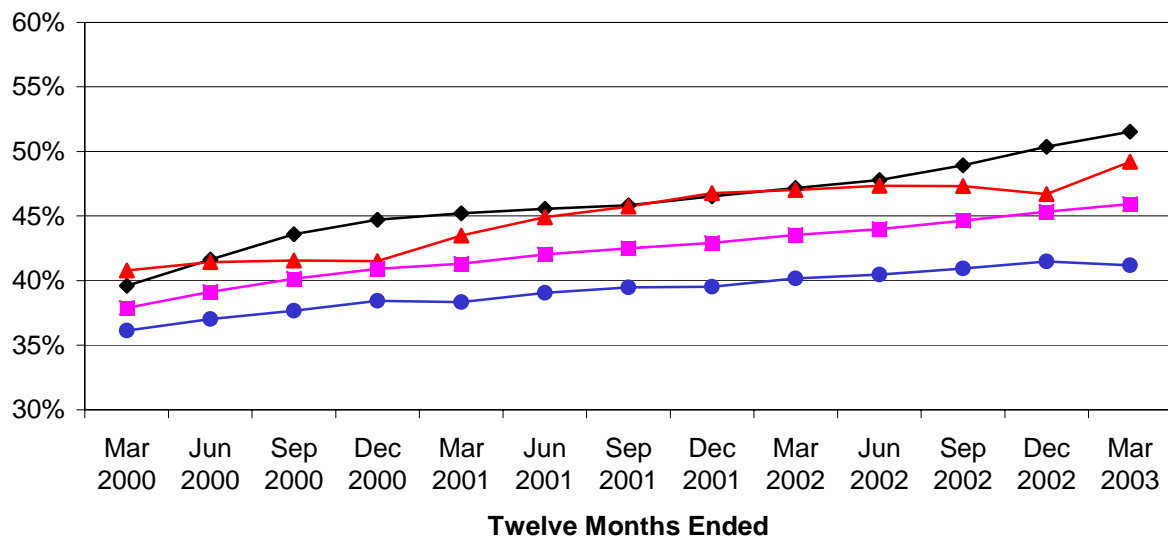
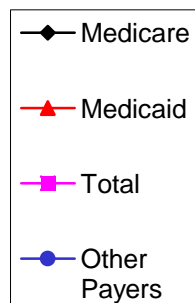
## Days In Accounts Receivable



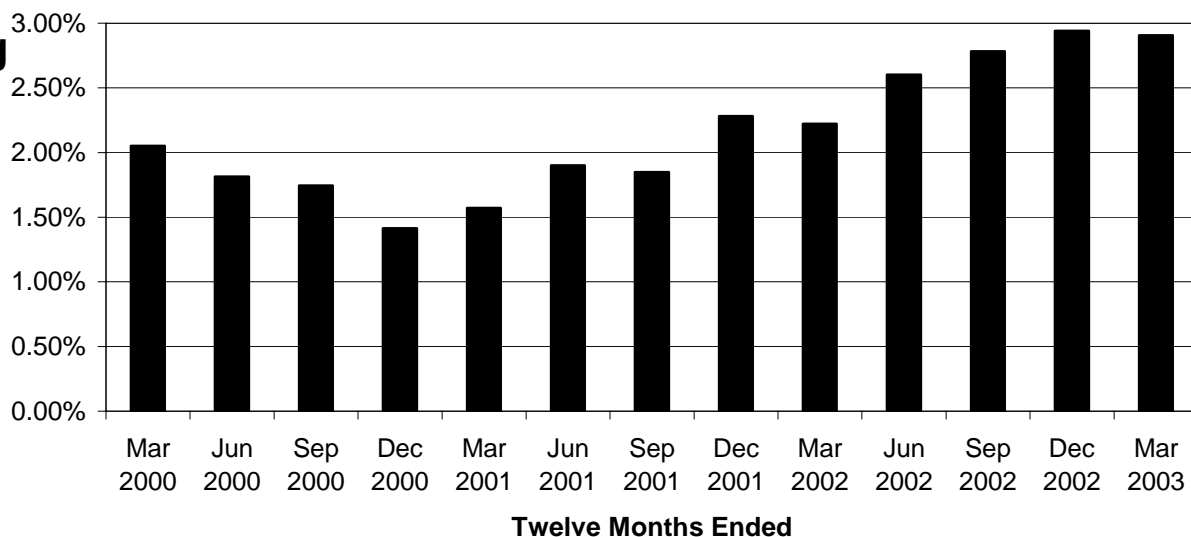
## Days In Accounts Receivable



## Contractual Proportion

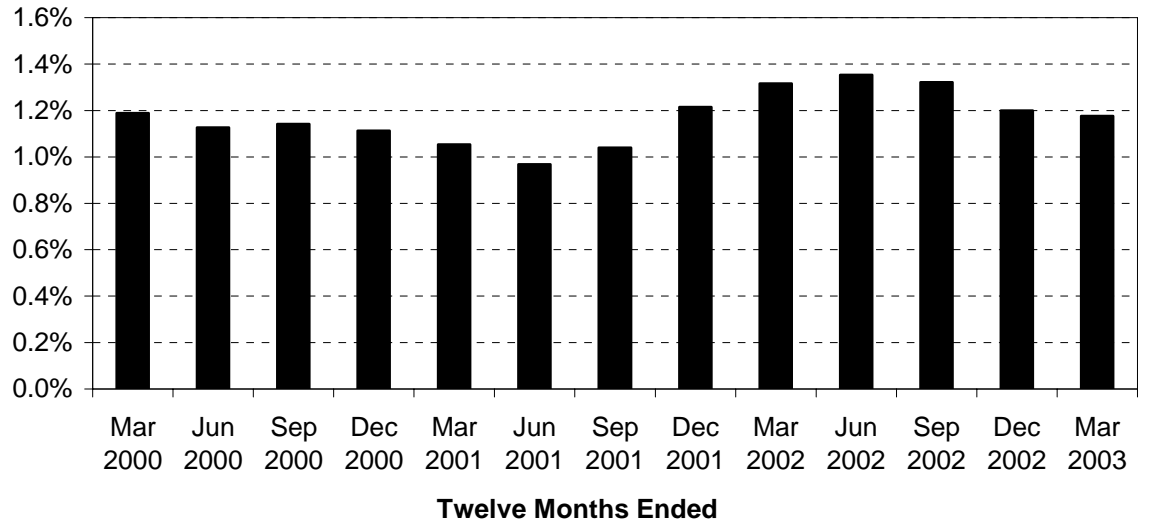


## Operating Margin

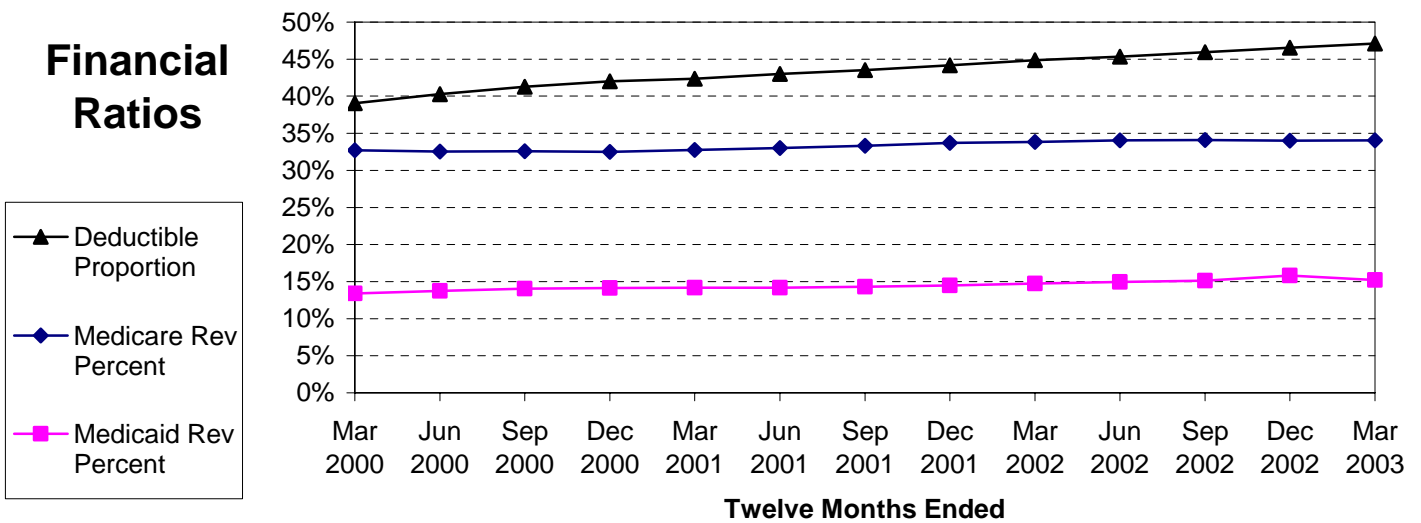




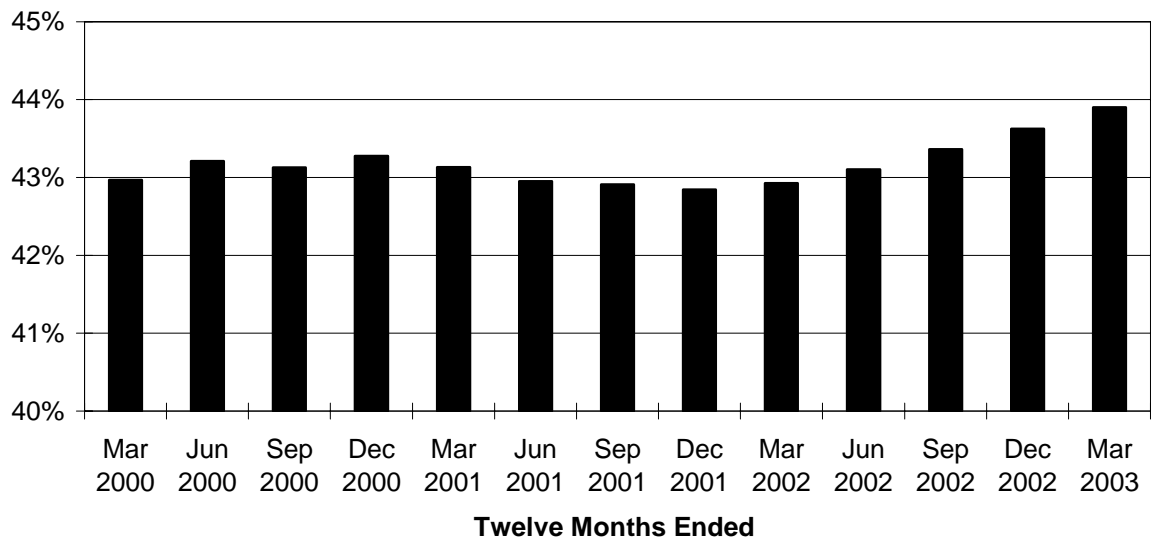
## Charity Proportion



## Financial Ratios



## Percent Outpatient Revenue



HOSPITAL PERFORMANCE STATEWIDE	Twelve Months Ended Mar 31, 2002	Twelve Months Ended Mar 31 2003	Total Change	Percent Change
Total Patient Revenue				
Inpatient	7,509,610,886	8,579,409,541	1,069,798,655	14.25%
Outpatient	5,648,377,327	6,714,431,981	1,066,054,654	18.87%
Total	13,157,988,213	15,293,841,522	2,135,853,309	16.23%
Medicare	4,450,464,118	5,205,792,119	755,328,001	16.97%
Medicaid	1,936,899,906	2,329,215,167	392,315,261	20.25%
Other	6,770,624,189	7,758,834,236	988,210,047	14.60%
Deductions From Revenue				
Contractual Adjustments				
Medicare	2,098,933,225	2,682,596,602	583,663,377	27.81%
Medicaid	910,658,062	1,145,863,844	235,205,782	25.83%
Other	2,720,469,119	3,196,546,573	476,077,454	17.50%
Total	5,730,060,406	7,025,007,019	1,294,946,613	22.60%
Charity	173,105,281	179,871,114	6,765,833	3.91%
Total	5,903,165,687	7,204,878,133	1,301,712,446	22.05%
Net Patient Revenue				
Medicare	2,351,530,893	2,523,195,517	171,664,624	7.30%
Medicaid	1,026,241,844	1,183,351,323	157,109,479	15.31%
Other	3,877,049,789	4,382,416,549	505,366,760	13.03%
Total	7,254,822,526	8,088,963,389	834,140,863	11.50%
Total Operating Expenses	7,084,512,094	7,840,937,464	756,425,370	10.68%
Net Operating Income	170,310,432	248,025,925	77,715,493	45.63%
Days in Accounts Receivable				
Medicare	58.2	49.1	-9.1	-15.69%
Medicaid	79.1	70.7	-8.4	-10.65%
Other Payers	78.5	70.5	-8.0	-10.21%
Statewide Total	71.8	63.3	-8.5	-11.85%
Utilization				
Discharges	513,926	516,181	2,255	0.44%
Patient Days	2,232,186	2,248,115	15,929	0.71%
Length of Stay	4.34	4.36	0.01	0.27%
Adjusted Discharges	910,793	928,536	17,743	1.95%
Rates				
Tot Rev Per Adj Disch	14,446.74	16,470.92	2,024.18	14.01%
Deductions Per Adj Disch	6,481.35	7,759.40	1,278.05	19.72%
Net Revenue Per Adj Disch	7,965.39	8,711.52	746.13	9.37%
Oper Expense Per Adj Disch	7,778.40	8,444.41	666.01	8.56%
Net Income Per Adj Disch	186.99	267.12	80.12	42.85%
Financial Ratios				
Operating Margin	2.22%	2.91%	0.68%	30.73%
Deductible Proportion	44.86%	47.11%	2.25%	5.01%
Contractual Proportion - Total	43.55%	45.93%	2.39%	5.48%
Contractual Proportion - Medicare	47.16%	51.53%	4.37%	9.26%
Contractual Proportion - Medicaid	47.02%	49.20%	2.18%	4.63%
Contractual Proportion - Other	40.18%	41.20%	1.02%	2.53%
Charity Proportion	1.32%	1.18%	-0.14%	-10.60%
Total Rev/Inpat Rev	1.75	1.78	0.03	1.74%
Outpat Rev Percent	42.93%	43.90%	0.98%	2.27%
Medicare Rev Percent	33.82%	34.04%	0.22%	0.64%
Medicaid Rev Percent	14.72%	15.23%	0.51%	3.46%